

**MEETING MINUTES OF
THE LGPIF OVERSIGHT COMMITTEE**

WEDNESDAY, APRIL 19, 2006

**GEF 3
125 S. WEBSTER ST.
MADISON, WI**

Present: John Montgomery
Danford Bubolz
Philip Kress
Glinda Loving
Kevin Houlihan

Absent: Peter Medley

Guests: Dean Boes
Dave Marchant
Lowell Carter

John Montgomery called the meeting to order at 9:35 a. m.

The agenda was approved as presented.

The minutes of the October 26, 2005 meeting were reviewed. Upon a motion by Dan Bubolz and a second by Phil Kress, it was unanimously,

RESOLVED, that the minutes of the October 26, 2005 meeting are approved as presented.

Financial Report

Dave Marchant reported that the Fund experienced a good first half of fiscal 2006 due to relatively stable premium income and low operating expenses. In the first six months of the year, assets increased by nearly \$7 million to \$52.7 million and surplus grew to \$37.9 million compared with \$34.5 million at FY end 2005. At the six months ending December 31, 2005 direct premium earned stood at \$12.8 million, direct losses incurred \$7.6 million and underwriting gain at \$2.5 million. This resulted in a net income of \$3.4 million for the six month period. If subsequent claim reserve strengthening was all applied to this period's net income, the net income would have been more accurately reported at approximately \$2.8 million. By comparison, the Fund had a net income of \$10.3 million for fiscal year ending June 30, 2005. Dave indicated that there will be an increase to IBNR in the next two months. He also reported that the Fund's combined ratio stood at .77 compared with .55 at FY end 2005, while the policy count was down slightly at 1,154 from 1,160 on June 30, 2005.

Dave pointed out that most assets are in the state investment pool and they buy long term investments as they deemed appropriate, but there has not been much activity for the past three years. Dan added that the Fund has about \$51 million invested with the SWIB and they make all decisions regarding long or short term investments.

There was some discussion regarding the loss in policy count for townships. Evidence seems to indicate that local agents offer package policies for these small entities that are attractive due to ease of administration.

Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the Financial Report be accepted as presented.

Advisory Committee Report

Kevin Houlihan reviewed the draft minutes of the recent Advisory Committee meeting and reported on the Committee's actions. He noted that he and Glinda Loving had been elected to continue to serve as Chair and Vice Chair, respectively, for another year.. Connie Goss was also elected as 2nd Vice Chair. The Advisory Committee complimented the work done to this point on the ESOV project. All are looking forward to a September operational date. Dan pointed out that the cost of the project is about \$36,000, but savings should be realized due to less keying of data and use of paper on the vendor's part. This should also aid in determining when a policy holder has non-owned property.

Upon a motion by Glinda Loving and seconded by Dan Bubolz it was unanimously,

RESOLVED, that the Advisory Committee Meeting minutes be accepted as a draft document for discussion purposes only.

John Montgomery asked that in the future all recommendations from the Advisory Committee and its subcommittees be described in essence in the minutes even if there are no actionable items.

Kevin continued with the Advisory Committee report with a list of resolutions developed by the various subcommittees. Upon a motion made by Kevin Houlihan and seconded by Dan Bubolz it was unanimously,

RESOLVED, that the Contractors Equipment reporting limit be raised from \$5,000 to \$10,000 per item and be added to the policy rewrite issues list.

Dan pointed out that this will result in an approximate loss of \$127,000 in annual premium but this is mainly an adjustment for inflation since the \$5,000 limit has been in use for many years.

There were no resolutions regarding loss control issues, but the Committee recommended that real case histories of claims paid by the Fund be communicated to all policy holders and suggestions for prevention of such losses be presented. They would also like to see more educational presentations by ASU or OCI staff regarding loss control. In addition, the Committee accepted the Probable Maximum Loss report as presented.

No resolutions were made with respect to Reinsurance programs, but it was recommended that the Program Officer should renew the program as it currently exists and pursue other options if they seem advantageous to the Fund.

Kevin reported further on the Committee's actions involving rate revisions. The consulting actuary had made various recommendations for reductions in premium that would not jeopardize the Fund's financial strength. Specifically, three options were presented by the actuary for reducing rates (by adopting an ISO loss cost adjustment) and applying more liberal credits for some deductible levels. (See the worksheet attached to these minutes.) The Committee recommended that Option 2 be adopted. Dave pointed out that by adopting that option, all deductible levels will be affected, not just the first four levels. About 70% of the Fund's business carries either the \$500, \$1,000, \$2,500 or \$5,000 deductibles. He will have to adjust all deductible credits to meet the actuary's recommendations without filing a deviation from the ISO loss costs. It was agreed by this Committee that care should be taken so that any adjustments do not produce financial results different from the actuary's projections.

Lowell mentioned that by applying a credit to the \$500 deductible level, it could affect some miscellaneous coverages such as builder's risk, business income, and a few others. It was agreed that some premium might be lost, but it would not be significant. Peter Medley had submitted a memo prior to the meeting giving his support to adopting Option # 2 from the actuary's report.

Phil asked if the overall premium reduction of \$3.1 million would reduce written or earned premium. It will reduce written numbers first but eventually will hit the earned premium numbers.

Some discussion followed regarding the possibility of the Fund issuing a policy holder dividend, since the Advisory Committee had strongly considered such a recommendation. Glinda mentioned that some were concerned that a dividend should not be paid without guidance from an actuary. ASU had developed some approximations showing that dividend payments as discussed by the Committee would not result in significant amounts. Dan pointed out that it is not common in the industry for dividends to be paid by commercial property insurers. It is much more common to adjust rates.

Upon a motion by Kevin Houlihan and seconded by Dan Bubolz it was unanimously,

RESOLVED, that Option #2 in the actuarial report be adopted and that all adjustments to the deductible table result in the premium reduction projected by the actuary.

The Oversight Committee agreed that the new deductible table including the ISO loss cost revision be adopted July 1, 2006. Phil pointed out that this could be done in one filing. Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the revisions to the deductible table and the ISO loss cost revisions be adopted July 1, 2006.

The last Advisory Committee resolution involved Extra Expense coverage. Currently, the Fund's Valuation policy provides for unlimited Extra Expense coverage. The Committee agreed that a cap should be applied to prevent a catastrophic loss, but allow for purchasing additional coverage.

Upon a resolution by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the actuary's recommendation of charging 10% of the building rate for Extra Expense coverage above the automatic \$5,000,000 limit be adopted.

Manager's Report

Dan reported that the ESOV project is progressing and a work group is meeting to provide input. Dave Marchant and his staff have completed much of the programming. It is intended that it be in test mode by July 1 and operational by September 1, 2006.

There is an RFP out for appraisal services to be effective September 1, 2006.

OCI is undergoing an internal reorganization process. There should be no change in the Fund's direct leadership.

A Probable Maximum Loss report was conducted during 2005 and copies were shared with the Reinsurance and Loss Control subcommittees of the Advisory Committee for discussion. They found it valuable and reassuring.

The Loss Control subcommittee indicated that they would like to see newsletter articles that describe actual losses and any recommendations for prevention. The subcommittee also studied data furnished by the ASU Group and no discernable loss trends are readily apparent. This seems to be a good indication that loss prevention activities are occurring.

The dispersion credit plan used by the Fund was discussed at the Rate Analysis subcommittee and the group seemed satisfied that it is a plan that rewards the policy holders with the better spread of risk as well as good loss history.

The claims recreation project is completed and LAB has issued an unqualified opinion. There is still some work being done with Aon and GAB on past files regarding subrogation issues.

A spring newsletter is in the development stages.

The contract with Pinsoft is up for renewal this fall.

The State is working on a new integrated system for all agencies that could take up to four years for development. It could affect WISMART and might give the recipient more information about the purpose of the check.

A new carrier (Driver Alliant) has been active in pursuing public entities for their property insurance. Some concerns raised involve the non-admitted carrier issue, single limit of coverage for a group of insureds, lack of guarantee fund assistance, and lack of OCI oversight for complaints involving non-admitted carriers.

Glinda mentioned that a newsletter article stressing the importance of due diligence in choosing an insurance carrier would be beneficial, especially if written by a Fund policy holder. Dan pointed out that it would have to be written as an informational piece in an effort to aid insureds in making prudent purchasing decisions.

The reinsurance contract has been renewed with like terms and conditions. Dan investigated the possibility of increasing the retention from \$2 million to \$3 million but the savings would not have been significant.

Upon a motion by Glinda Loving and seconded by Phil Kress it was unanimously,

RESOLVED, that the Manager's report be approved.

Administrator's Report

Dean Boes reported that policy and claims administration work had been steady during the second and third quarters of the fiscal year. The number of policies issued and canceled are nearly even and claim counts are typical of recent years. A few large losses have occurred, but not reaching the reinsurance layers.

A monthly meeting is held with OCI staff to update them on all losses, projects, systems issues, and various research activities. ASU staff has been busy with quotes due to increased competition from at least one new competitor.

Policy holder surveys have been favorable with a very high percentage of returns. Dean Boes praised the positive working relationship that ASU has with the Marchant Consulting Group concerning Pinsoft service. Glinda Loving went on record complimenting the continued excellent service from The ASU Staff in Madison in serving policy holders.

Lowell Carter pointed out that TRIA was extended through 2007. Although not a serious issue for the Fund, we will have to send an informational bulletin and two endorsements to the policy holders prior to 2007. ISO has developed the endorsements and they

indicate how much premium is collected due to terrorism coverage and provided conditional language if TRIA expires at the end of 2007.

Dan also mentioned that from an administrative standpoint, the Pinsoft system has been able to provide improved reports and much more data than previous systems.

Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously

RESOLVED, that the Administrator's Report be accepted.

Next Meeting

The next Oversight Committee meeting will be held on Wednesday, November 1, 2006 at 9:30 a.m. in room 125 at GEF 3, 125 S. Webster Street, Madison, WI

Adjourn

The meeting was adjourned at noon.

Respectfully submitted,

Lowell Carter , Acting Secretary

Date

ATTEST:

John Montgomery, Chair

Date